Spartanburg Community College

Independent Auditors' Report

Financial Statements and Schedules for the Year Ended June 30, 2017

SPARTANBURG COMMUNITY COLLEGE

CENTRAL CAMPUS

TYGER RIVER CAMPUS

CHEROKEE COUNTY CAMPUS

SCC DOWNTOWN CAMPUS

UNION COUNTY ADVANCED TECHNOLOGY CENTER

SPARTANBURG COMMUNITY COLLEGE
Table of Contents
June 30, 2017

SPARTANBURG COMMUNITY COLLEGE

Commission Members, Officers, Key Staff, and Areas Served by the College

Audit Period July 1, 2016 – June 30, 2017

AREA COMMISSION

	School District Represented	Term Expires	Office Held
Ms. Tracey G. Hill	School District 1	04/27/21	
Mr. Eugene S. (Sonny) Anderson	School District 2	05/23/19	Vice Chairman
Mr. Tracy W. Keller	School District 3	04/27/21	Secretary
Mr. F. Gary Towery	School District 4	04/27/17	
Mr. William Bruce Johnson	School District 5	04/27/20	
Mr. William G. Sarratt	School District 6	04/27/21	
Mr. Anthony D. Bell	School District 7	04/27/20	
Mr. James M. Folk	School District 6	11/15/17	(Member-at-Large)
Ms. Kimberly A. Fowler	School District 1	05/23/19	(Member-at-Large)
Mr. Gregory M. Tate	Cherokee County	05/23/19	Chairman
Mr. Stanley O. Vanderford	Union County	11/15/17	
Dr. C. Scott Turner	Spartanburg	Ex-Officio	
Mr. J. Whitner (Whit) Kennedy, Jr.	Spartanburg	Ex-Officio	

OFFICERS AND KEY ADMINISTRATIVE STAFF

Mr. Henry C. Giles, Jr.	President
Dr. Cheryl A. Cox	Senior Vice President of Business Affairs
Mr. L. Ray Switzer	Vice President of Business Affairs
Mr. Ronald Jackson	Vice President of Student Affairs
Mr. P. Michael Forrester	Executive Assistant to the President and Director of Economic Development
Mrs. Bea Walters Smith	Executive Director of Advancement and SCC Foundation
Mrs. Geraldine S. Mahaffey	Administrative Coordinator to the President
Ms. Betty A. Hall	Administrative Assistant to the President

AREA SERVED BY COLLEGE

Spartanburg, Cherokee, and Union Counties

Independent Auditors' Report

The Commission Members
Spartanburg Community College
Spartanburg, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit (Spartanburg Community College Foundation) of Spartanburg Community College, a component unit of the State of South Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Spartanburg Community College Foundation were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such, opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Post Office Box 161300, 145 Rogers Commerce Boulevard, Boiling Springs, SC 29316-1300, (864) 541-0218 Fax (864) 541-0221
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Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Spartanburg Community College as of June 30, 2017, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 21 to the financial statements, in fiscal year 2017, the College adopted new accounting guidance, Governmental Accounting Standard Board (GASB) Statement No. 77, *Tax Abatement Disclosures*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's Discussion and Analysis, the Schedule of Proportionate Share of Net Pension Liability, and the Schedule of College Contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2017, on our consideration of Spartanburg Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Report on State Lottery Assistance Program

We have also issued our report dated September 18, 2017 on our consideration of Spartanburg Community College's administration of the State Lottery Assistance Program and on our tests of its compliance with certain provisions of State law and policy 3-2-307 and Procedure 3-2-307.1 of the State Board for Technical and Comprehensive Education.

Gaffney, SC
September 18, 2017

Management's Discussion and Analysis

As management of Spartanburg Community College, we offer readers of the College's financial statements this narrative overview and analysis of the financial activities of the College for the fiscal year ended June 30, 2017, with comparative data for fiscal year ended June 30, 2016. The emphasis of discussion about these statements will be on current year data.

This report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for Colleges and Universities.* The financial statement presentation required by GASB Statements No. 34, No. 35, No. 39 and No. 40 provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows and replaces the fund-group perspective. The GASB statement presentation focuses on the financial condition of the College as a whole.

The State of South Carolina implemented GASB Statements No. 61 and No. 63 for the fiscal year ended June 30, 2013. As a result, Spartanburg Community College is presented as a discretely presented component unit in the State of South Carolina Comprehensive Annual Financial Report. In addition, the Statement of Net Assets has been replaced by the Statement of Net Position.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, replaces the requirements of Statement No. 25 and Statement No. 50, and is effective for fiscal periods beginning after June 15, 2013. This statement affects the reporting requirements for pension plans that administer benefits. The South Carolina Public Employee Benefit Authority (PEBA) implemented the changes required by this standard in the South Carolina Retirement Systems' financial statements issued for the fiscal year ended June 30, 2014. This statement has no direct impact on the reporting requirements of employers participating in the plans, including the financial statements of the College.

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, replaced the requirements of Statement No. 27, and is effective for fiscal periods beginning after June 15, 2014. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Spartanburg Community College implemented GASB Statement No. 68 for the fiscal year ended June 30, 2015. As a result of implementing GASB No. 68 and recording the Net Pension Liability and deferred outflows and inflows of resources, total net position decreased by $27,841,642 for fiscal year ended June 30, 2015. If GASB No. 68 was not implemented total net position would have increased by $4,069.006 for fiscal year ended June 30, 2016. As a result of implementing GASB No. 68 and recording the Net Pension Liability and deferred outflows and inflows of resources, total net position increased by $3,411,310 for fiscal year ended June 30, 2017. If GASB No. 68 was not implemented total net position would have increased by $4,016,809 for fiscal year ended June 30, 2017.

Overview of the Financial Statements

The College is engaged only in Business-type Activities (BTA) that are financed in part by fees charged to students for educational services. Accordingly, its activities are reported using the three financial statements required for proprietary funds: Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows.

The Statement of Net Position presents the financial position of the College at the end of the fiscal year and classifies assets and liabilities into current and non-current. The difference between total assets and total liabilities is net position, which are displayed in three broad categories: net investment in capital assets, restricted and unrestricted. Net position are one indicator of the current financial position of the College, while the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year.

- The assets of Spartanburg Community College exceeded its liabilities at June 30, 2017, by $34,035,875 (net position). Due to the implementation of GASB 68, unrestricted net position are ($21,327,073). If GASB 68 was not implemented, total net position would have increased by $3,987,584 to $66,155,378, and unrestricted net position would have been $16,852,960, which could be used to meet the College's ongoing obligations.

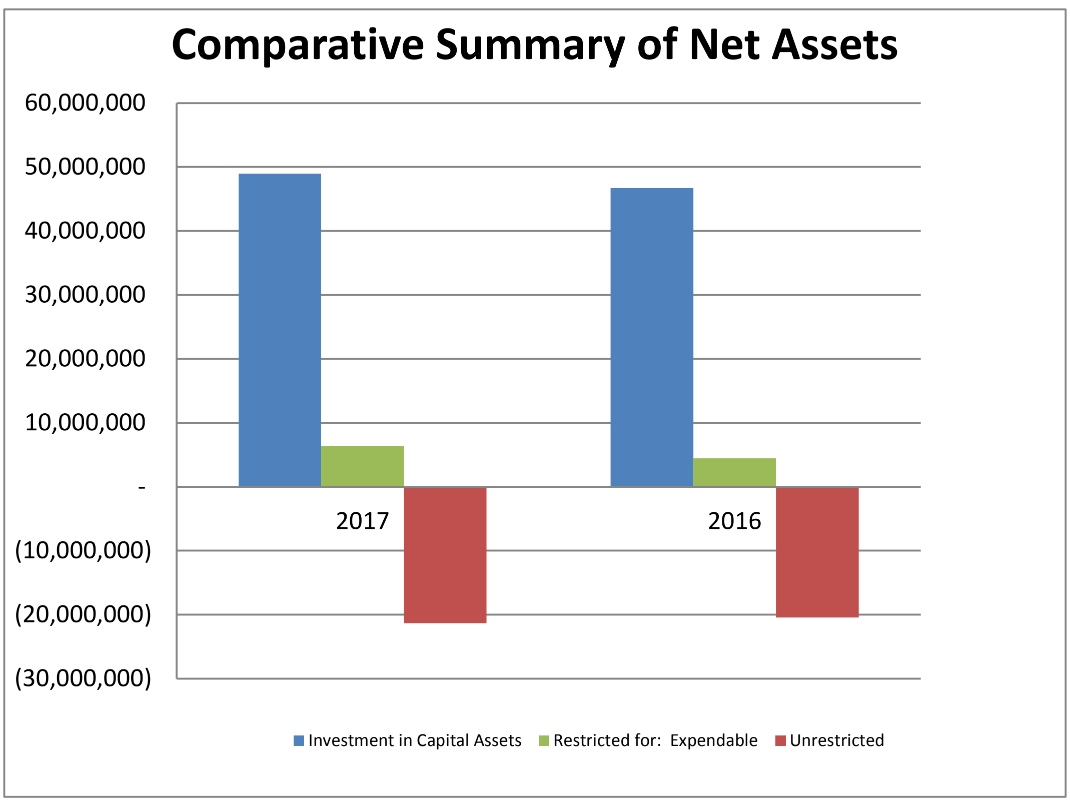
- Total assets of the College increased by $6,528,413. Capital assets increased by $3,596,331 (before accumulated depreciation) due to construction in progress of a new instructional facility at the Cherokee County Campus, and the College purchasing land and other machinery and equipment. Total Current Assets increased by $4,372,512, primarily due to an increase in cash and cash equivalents, which was offset by a decrease in receivables by $2,974,765 at year-end from the State and Spartanburg County.

- Total liabilities increased by $5,417,744, mainly due to recording the College's Net Pension Liability under GASB 68 and increase to unearned revenue.

- Deferred Outflows and Inflows of Resources were recorded in accordance with GASB 68 to show the College's share of the expected and actual experience and the net difference between the projected and actual investment earnings.

Condensed Summary of Net Position
As of June 30, 2017 and 2016

	2017	2016	Increase (Decrease)
Assets			
Current Assets	$ 25,025,267	20,652,755	4,372,512
Capital Assets	50,448,026	48,292,125	2,155,901
Other	-	-	-
Total Assets	75,473,293	68,944,880	6,528,413
Deferred Outflows of Resources	5,431,305	4,576,809	854,496
Liabilities			
Current Liabilities	5,898,845	3,202,974	2,695,871
Non-current Liabilities	39,239,157	36,517,284	2,721,873
Total Liabilities	45,138,002	39,720,258	5,417,744
Deferred Outflows of Resources	1,730,722	3,176,857	(1,446,135)
Net Position			
Invested in Capital Assets, net of Debt	48,971,938	46,683,842	2,288,096
Restricted - Capital Projects	6,407,344	4,424,753	1,982,591
Restricted - Debt Service	(16,334)	(17,797)	1,463
Loans	-	-	-
Unrestricted	(21,327,073)	(20,466,234)	(860,839)
Total Net Position	$ 34,035,875	30,624,564	3,411,310



The unrestricted net position are negative in FY 2017-16 and FY 2015-16 due to the implementation of GASB 68 and recording the Net Pension Liability and deferred outflows and inflows of resources.

The Statement of Revenues, Expenses, and Changes in Net Position is basically a statement of net income that replaces the fund perspective with the entity-wide perspective. Revenues and expenses are categorized by operating and non-operating. Expenses are reported by object type.

GASB requires state appropriations and gifts to be classified as non-operating revenues. (Pell grants are classified as non-operating revenue – grants and contracts.) This requirement results in an operating deficit for the College.

- Total net position increased by $3,411,310 during fiscal year 2017. State regular and Federal grants and contracts appropriations increased during the fiscal year. Local appropriations also increased. The College received State capital funds of $4,000,409.

- Total operating revenues increased by $617,367 during the year, primarily due to increase in tuition and transition to per hour tuition.

Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution.

- Salaries increased $578,411. During the year, part-time salaries were underspent due to a decrease in enrollment, in addition some employees retired and there were other vacancies during the year. However, the college provided a 3.25% salary performance increase that went in effect on July 1, 2016 for full-time employees and January 1, 2017 for adjunct faculty.

- Benefits increased by $419,308 due to the increasing cost of benefits such as retirement and insurance and the allocation of the net pension expense.

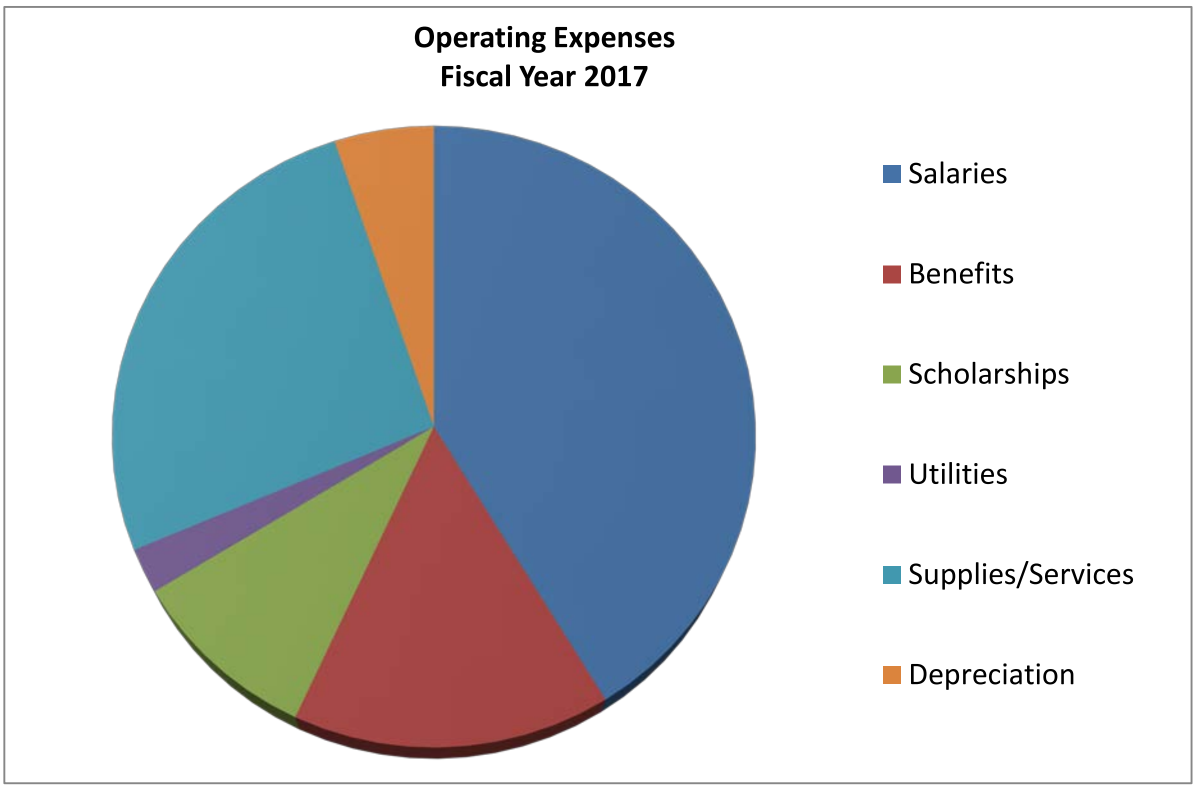
- Supplies and services decreased by $1,735,840 due primarily to a prior year payment to the Department of Education. On January 12, 2015, the College received a Final Audit Determination from the U.S. Department of Education concerning SCC's administration of the programs authorized pursuant to Title IV of the Higher Education Act of 1965 during the 2013-14 award year. The Final Audit Determination contained one finding alleging that SCC awarded ineligible disbursements of financial aid to students for courses not included in the students' programs of study. SCC filed a Request for Review appealing this Audit Determination. In October 2015, SCC and the U.S. Department of Education concluded this matter in a settlement of $1.36 million, subsequently SCC submitted payment on October 26, 2015. This amount was reflected in the supplies and services expense.

- The transfer from the current fund to the plant fund at fiscal year-end, as authorized by the Commission, increased from $590,000 in fiscal year 2016, to $1,000,000 in fiscal year 2017, an increase of $410,000.

- Scholarships decreased $1,117,761. This is primarily due to a decrease in enrollment. In fiscal year 2017, the amount received from Pell and Federal Direct Loans continued to decrease.

Condensed Summary of Operating Expenses
For the Years Ended June 30, 2017 and 2016

	2017	2016	Increase (Decrease)
Salaries	$19,621,254	$19,042,843	$ 578,411
Benefits	7,388,374	6,969,066	419,308
Scholarships	4,466,025	5,583,786	(1,117,761)
Utilities	1,103,639	1,051,904	51,735
Supplies/Services	12,464,330	14,200,170	(1,735,840)
Depreciation	2,451,175	2,081,194	369,981
Total	$ 47,494,797	$ 48,928,963	$ (1,434,166)



The Statement of Cash Flows will aid readers in identifying the sources and uses of cash by the major categories of operating, capital and related financing, non-capital financing, and investing activities. This statement also emphasizes the College's dependence on State and County appropriations by separating them from operating cash flows.

The increase in cash flows of $7,503,634 as compared to a $4,583,517 decrease in fiscal year 2016 was primarily due to state and county appropriations. This past year, the State appropriation to the State Board for Technical & Comprehensive Education continued to stabilize and increase slightly by $13,165,000 (12.79 percent). As a result, the college was allocated $792,000 more in state support, which was a 12.66 percent increase. In addition, the college received $5,512,266 in one-time surplus and capital funds to put towards equipment. Capital appropriations of $906,816 were received to support the operations of the Cherokee campus.

- A tuition increase of $54 per semester for in-county residents was effective in the Fall 2016 term to partially offset the decline in state funding over time.

Condensed Summary of Cash Flows
For the Years Ended June 30, 2017 and 2016

	2017	2016	Difference
Operating Activities	$(22,273,227)	$(27,561,987)	$5,288,760
Non-Capital Financing Activities	30,542,074	23,743,370	6,798,704
Capital and Related Financing Activities	(769,509)	(766,893)	(2,616)
Investing Activities	4,296	1,993	2,303
Net (Decrease) in Cash	7,503,634	(4,583,517)	12,087,151
Cash & Cash Equivalents - Beginning of Year	14,632,509	19,216,026	(4,583,517)
Cash & Cash Equivalents - End of Year	$ 22,136,143	$ 14,632,509	$ 7,503,634

Financial Analysis

Net position may serve over time as a useful indicator of an entity's financial position. In the case of the College, assets exceeded liabilities by $34,035,875 at the close of the fiscal year. Due to the implementation of GASB 68, unrestricted net position are ($21,327,073). If GASB 68 was not implemented, total net position would have increased by $3,987,584 to $66,755,378, and unrestricted net position would have been $16,852,960, which could be used to meet the College's ongoing obligations.

By far the largest portion of the College's net position reflects its investment in capital assets (e.g. land, buildings, machinery and equipment). The College uses these capital assets to provide services to students, consequently, these assets are not available for future spending. During fiscal year 2013, the College paid off all four of its' capital bonds. The College currently has no outstanding bond debt.

Cash increased by $7,503,634. Overall cash provided from non-capital financing activities included state and local appropriations, grants and gifts, and other income of approximately $23 million was used to fund operating activities.

The College is party to a 20 year capital lease with the Spartanburg Community College Foundation for the lease of the Business Training Center on the Cherokee Campus. Lease payments in the amount of $199,000 were made this fiscal year.

The Evans Building project was transferred to the Spartanburg Community College Foundation-Downtown Campus, LLC during fiscal year 2013. On November 1, 2012, the Spartanburg County Commission for Technical and Community Education entered into a Facility Lease agreement with the Spartanburg Community College Foundation-Downtown Campus, LLC. The initial term of the lease is 20 years beginning on the first day of the calendar quarter after delivery of the certificate of occupancy by the State of South Carolina Office of State Engineer. Upon formation of the LLC Partnership and pursuant to the facilities lease, the College transferred $825,760 to the LLC Partnership as an amount for the renovation and construction of leasehold improvements with respect to the project and to reduce further lease payments to the LLC Partnership. During the current year, the College paid a total of $859,120 in lease payments to the Downtown Campus, LLC pursuant to the facilities lease. The Evans Building was completed and was being used starting in the Fall 2013 semester, and during the 16-17 school year the business school was completely moved from the central campus to the downtown campus.

On June 17, 2013, Spartanburg Community College entered into a Sub-lease agreement with Spartanburg County School District No. 7, commencing on July 1, 2013, and terminating on June 30, 2018, for a total of five years. The College received $83,863.78 in lease payments along with a deposit of $6,988.65 from Spartanburg County School District No. 7 as security of the full and faithful performance of every provision of the Sublease.

On February 8, 2013, Spartanburg Community College entered into a Sub-lease agreement with SC Works commencing on October 1, 2013, and terminating June 30, 2016, for a total of two years and eight months. SC Works paid Spartanburg Community College $131,000 in lease payments during fiscal year 2016, based on the amendment on June 16, 2015 of the third term of the sublease, July 1, 2015 – June 30, 2016. A security deposit of $12,008.33 was also received by the College as security of the full and faithful performance of every provision of the Sublease. On June 8, 2016 the fourth term of the sublease, July 1, 2016-June 30, 2019, was amended with the same payments and square footage as the third term.

Economic Factors

This past year, the State appropriation to the State Board for Technical & Comprehensive Education continued to stabilize and increase slightly by $13,165,000 (12.79 percent). As a result, the college was allocated $792,000 more in state support, which was a 12.66 percent increase. In addition, the college received $5,512,266 in one-time surplus and capital funds to put towards equipment. Capital appropriations of $906,816 were received to support the operations of the Cherokee campus.

Spartanburg Community College experienced a decrease in enrollment headcount of 4.3% for the Fall 2016 term and a decrease of enrollment headcount of 4.9% for the Spring 2017 term. The Summer 2017 headcount was down 2.7%. With the continued improvement experienced in regional employment, the College has projected and budgeted for a 2% decrease in enrollment for 2017-18.

Increased use of our facilities will put demands on our operational costs. Utilities and operational costs are expected to continue to increase. The College has completely finished construction of the new Cherokee Campus building. This building began holding classes starting in the Fall 2015 semester. Staffing optimization at all sites will continue to be a top priority.

SPARTANBURG COMMUNITY COLLEGE
Statement of Net Position
June 30, 2017

ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	$ 22,136,143
Accounts Receivable, Net	2,294,704
Inventories	415,311
Other Assets	179,109
Total Current Assets	25,025,267
NONCURRENT ASSETS	
Capital Assets	81,552,662
Accumulated Depreciation	(31,104,636)
Total Noncurrent Assets	50,448,026
Total Assets	75,473,293
DEFERRED OUTFLOWS OF RESOURCES	5,431,305
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	1,172,467
Compensated Absences	75,681
Accrued Payroll and Related Liabilities	624,918
Long-Term Liabilities - Current Portion	132,195
Unearned Revenue	3,877,250
Accrued Interest Payable	16,334
Total Current Liabilities	5,898,845
NONCURRENT LIABILITIES	
Long-Term Liabilities - Noncurrent Portion	1,343,893
Compensated Absences - Payable	1,445,953
Net Pension Liability	36,449,311
Total Noncurrent Liabilities	39,239,157
Total Liabilities	45,138,002
DEFERRED INFLOWS OF RESOURCES	1,730,722
NET POSITION	
Net Investment in Capital Assets	48,971,938
Restricted For:	
Loans	-
Capital Projects	6,407,344
Debt Service	(16,334)
Unrestricted	(21,327,073)
Total Net Position	$ 34,035,875

SEE NOTES TO FINANCIAL STATEMENTS

SPARTANBURG COMMUNITY COLLEGE
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

REVENUES	
OPERATING REVENUES	
Student Tuition and Fees	$ 9,858,144
(Net of Scholarship Allowances of $9,539,006)	
Student Tuition and Fees Pledged for Capital Projects	1,432,458
(Net of Scholarship Allowances of $736,190)	
Federal Grants and Contracts	879,593
State Grants and Contracts	5,836,360
Local Grants and Contracts	265,905
Sales and Services of Educational Departments	852
Auxiliary Enterprises (Net of Scholarship Allowances of $819,497)	1,835,567
Other Operating Revenues	393,972
Total Operating Revenues	20,502,851
EXPENSES	
OPERATING EXPENSES	
Salaries	19,621,254
Benefits	7,388,374
Scholarships	4,466,025
Utilities	1,103,639
Supplies and Other Services (Other Transfers Included)	12,464,330
Depreciation	2,451,175
Total Operating Expenses	47,494,797
Operating Income (Loss)	(26,991,946)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	8,184,339
Local Appropriations	6,506,869
Investment Income	3,477
Interest On Capital Asset-Related Debt	(65,342)
Federal Grants and Contracts	8,977,867
Other Non-Operating Revenue	240,474
Net Non-Operating Revenues	23,847,684
Income Before Other Revenues, Expenses, Gains or Losses	(3,144,262)
OTHER	
Federal Capital Grants & Contracts	21,142
State Capital Appropriations	4,000,409
Local Capital	2,430,016
Gain on Disposal of Capital Assets	104,005
Total Other	6,555,572
Increase in Net Position	3,411,310
NET POSITION	
Net Position - Beginning of Year	30,624,565
Net Position - End of Year	$ 34,035,875

SEE NOTES TO FINANCIAL STATEMENTS

SPARTANBURG COMMUNITY COLLEGE
Statement of Cash Flows
For the Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees	$ 11,393,691
Federal, State and Local Grants and Contracts	5,417,003
Auxiliary Enterprise Charges	1,917,042
Payments to Suppliers for Goods and Services	(12,500,500)
Payments to Employees	(24,961,288)
Payments for Scholarships and Fellowships	(4,386,725)
Other Receipts	847,550
Net Cash Provided (Used) by Operating Activities	(22,273,227)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	10,559,455
County Appropriations	7,779,041
Grants & Gifts Received for Other Than Capital Purposes	9,109,985
Net Cash Flows Provided by Noncapital Financing Activities	27,448,481
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	4,000,409
Local Grants and Contracts	2,090,598
Federal Grants and Contracts	21,142
Purchase of Capital Assets	(3,693,070)
Gain on Disposal of Assets	104,005
Principal Paid on Capital Debt	(132,195)
Interest Paid on Capital Debt	(66,805)
Net Cash Provided by Capital and Related Financing Activities	2,324,084
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on Investments	4,296
Net Cash Flows Provided (Used) by Investing Activities	4,296
Net Increase (Decrease) in Cash	7,503,634
Cash - Beginning of Year	14,632,509
Cash - End of Year	$ 22,136,143
Reconciliation of Net Operating Revenue (Expenses) to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	$ (26,991,946)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	2,451,176
Change in Assets and Liabilities:	
Receivables, Net	(1,145,058)
Inventories	58,711
Allocated Net Pension Liability to Benefits Expense	605,498
Deferred Charges and Prepaid Expenses	152,148
Accounts Payable and Accrued Expenses	536,702
Compensated Absences	(82,636)
Unearned Revenue	2,142,178
Net Cash Provided (Used) by Operating Activities	$ (22,273,227)
Non Cash Contributions SC Accelerate - Greenville Technical College	339,417

SEE NOTES TO FINANCIAL STATEMENTS

SPARTANBURG COMMUNITY COLLEGE FOUNDATION
Consolidated Statement of Financial Position
For the Year Ended June 30, 2017

ASSETS

CURRENT ASSETS		
Cash and Cash Equivalents	$	502,310
Accounts Receivable		26,200
Accrued Interest Receivable		26,239
		554,749
ASSETS RESTRICTED FOR LONG-TERM ASSETS		
Cash		1,040,374
Pledges Receivable, Net		205,590
		1,245,964
PROPERTY AND EQUIPMENT		20,107,681
Less: Accumulated Depreciation		(2,313,128)
		17,794,553
OTHER ASSETS		
Investments Held by Spartanburg County Foundation		6,279,328
Note Receivable		3,720,500
		9,999,828
TOTAL ASSETS	$	29,595,094

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accrued Interest Payable	$	70,869
Current Portion of Long-Term Debt		147,296
		218,165
LONG TERM LIABILITIES		
Long-Term Debt		15,554,251
NET POSITION		
Unrestricted		6,198,098
Temporarily Restricted		7,624,580
Total Net Position		13,822,678
TOTAL LIABILITIES AND NET POSITION	$	29,595,094

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

SPARTANBURG COMMUNITY COLLEGE FOUNDATION
Statement of Activities
For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
Revenues and Support			
Grants and Contributions	$ 97,110	1,033,020	1,130,130
Lease Income	1,076,744	-	1,076,744
Investment Income			
Investment Interest and Dividends	195,695	-	195,695
Realized Gains (Losses)	(14,528)	-	(14,528)
Unrealized Gains (Losses)	460,231	-	460,231
Other Income	5,590	-	5,590
Net Assets Released from Restrictions	951,910	(951,910)	-
Total Revenues, Support, and Reclassifications	2,772,752	81,110	2,853,862
Expenses			
Program Services	2,113,462	-	2,113,462
Management and General	79,857	-	79,857
Fundraising	2,741	-	2,741
Total Expenses	2,196,060	-	2,196,060
Net Increase (Decrease) in Net Assets Before Transfers	576,692	81,110	657,802
Transfers In	650,000	-	650,000
Transfers Out	(670,238)	-	(670,238)
	(20,238)	-	(20,238)
Change in Net Assets	556,454	81,110	637,564
Net Position at Beginning of Year	5,641,644	7,543,470	13,185,114
Net Position at End of Year	$ 6,198,098	7,624,580	13,822,678

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Operations: Spartanburg Community College (the "College"), a member institution of the South Carolina Technical College System, provides a range of educational programs to meet the needs of the adult population of Spartanburg, Union, and Cherokee counties. Included in this range of programs are technical and occupational associate degree, diploma and certificate curricula that are consistent with the needs of employers in the College's service area. As an integral part of this mission, the College provides a program of continuing education designed to satisfy the occupational demands of employers through retraining and upgrading the skills of individual employees. The College also provides a variety of developmental education programs, support services and offerings to assist students in meeting their personal and professional educational objectives as well as the Associate of Arts and Associate of Science degree programs for students wishing to continue their education at a four year college or university.

Spartanburg Community College Foundation, Inc. (the "Foundation") is a nonprofit organization that was formed June 28, 1983, to benefit and support education at Spartanburg Community College.

B. Reporting Entity: The financial reporting entity, as defined by the Governmental Accounting Standards Board (GASB) consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. The State of South Carolina implemented GASB Statement No. 61 beginning for the fiscal year ended June 30, 2013. As a result, Spartanburg Community College is presented as a discretely presented component unit beginning in the 2013 State of South Carolina Comprehensive Annual Financial Report. Accordingly, the financial statements include the accounts of Spartanburg Community College, as a discretely presented component unit, and the accounts of Spartanburg Community College Foundation, its component unit. The College is a component unit of the State of South Carolina.

The Foundation is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The board of the Foundation is self-perpetuating and consists of graduates and friends of the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests, is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College. The Foundation is reported in separate financial statements because of the difference in its reporting model, as further described below.

On January 13, 2012, the Foundation formed the SCC Foundation-Downtown Campus, LLC, a partnership, with the Spartanburg Public Facilities Corporation as a 3% partner to carry out the charitable and educational purposes of the Foundation, to benefit Spartanburg Community College, as a partnership of two non-profit entities, and, more specifically, for the purpose of renovating the Evans building, the new downtown campus project. This renovation project was completed during the fiscal year ended June 30, 2014, and the renovated facility occupied and leased to and managed by the College.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The Foundation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. Most significant to the Foundation's operations and reporting model is FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made,* and FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations.* As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences. However, significant note disclosures to the Foundation's financial statements have been incorporated into the College's notes to the financial statements. (See Note R within this Summary of Significant Accounting Policies.)

Financial statements for the Foundation can be obtained by mailing a request to: Spartanburg Community College Foundation, Post Office Box 4386, Spartanburg, South Carolina 29305.

C. Financial Statements: The financial statements are presented in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities.* The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows that replaces the fund-group perspective previously required.

Beginning in fiscal year 2013, the State required the implementation of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* As a result, the Statement of Net Assets has been replaced by the Statement of Net Position. The State also implemented GASB Statement No. 61, *The Financial Reporting Entity: Omnibus and amendment of GASB Statements No. 14 and No. 34,* beginning in the fiscal year ended June 30, 2013. As a result, Spartanburg Community College is presented as a discretely presented component unit in the State of South Carolina Comprehensive Annual Financial Report.

In fiscal year 2014, the College implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognized as outflows of resources or inflow of resources. Requirements of this Statement are effective for financial statements whose fiscal year begins after December 15, 2012.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, replaces the requirements of Statement No. 25 and Statement No. 50, and is effective for fiscal periods beginning after June 15, 2013. This statement affects the reporting requirements for pension plans that administer benefits. The South Carolina Public Employee Benefit Authority (PEBA) implemented the changes required by this standard in the South Carolina Retirement Systems' financial statements issued for the fiscal year ended June 30, 2014. This statement has no direct impact on the reporting requirements of employers participating in the plans, including the financial statements of the College.

<u>NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u>, Continued

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, replaced the requirements of Statement No. 27, and is effective for fiscal periods beginning after June 15, 2014. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Spartanburg Community College implemented GASB Statement No. 68 for the fiscal year ended June 30, 2015. As a result of implementing GASB No. 68 and recording the Net Pension Liability and deferred outflows and inflows of resources, total net assets decreased by $27,841,642 for fiscal year ended June 30, 2015. If GASB No. 68 was not implemented total net assets would have increased by $4,069,006 for fiscal year ended June 30, 2016. As a result of implementing GASB No. 68 and recording the Net Pension Liability and deferred outflows and inflows of resources, total net assets increased by $3,478,825 for fiscal year ended June,30, 2017. If GASB No. 68 was not implemented total net assets would have increased by $4,084,323 for fiscal year ended June 30, 2017.

<u>D. Basis of Accounting</u>: For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Student tuition and auxiliary enterprise fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly are presented as scholarship expenses. All significant intra-institutional transactions have been eliminated.

The College has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

<u>E. Cash and Cash Equivalents</u>: For purposes of the statement of cash flows, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State of South Carolina State Treasurer's Office are considered cash equivalents.

<u>F. Investments</u>: Deposits and investments for the College are governed by the South Carolina Code of Laws, Section 11-9-660, and "Investments of Funds". GASB Statement No. 40, *Deposits and Investment Risk Disclosures – an amendment to GASB Statement No. 3,* requires disclosures related to deposit risks, such as custodial credit risk, and investment risks, such as credit risk (including custodial credit risk and concentrations of credit risks) and interest rate risk. The College accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the fair value of investments are reported as a component of investment income in the statement of revenues, expenses and changes in net assets.

<u>G. Accounts Receivable</u>: Accounts receivable consists of tuition and fee charges to students, gift pledges and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

<u>H. Inventories</u>: Inventories for internal use are valued at cost. Inventories for resale are carried at the lower of cost or market on the first-in, first-out ("FIFO") basis.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Capital Assets: Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The College follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions, renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The College capitalizes movable personal property with a unit value in excess of $5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of $100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of $5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles. Effective July 1, 2011, the College adopted a monthly depreciation convention for the straight-line method consistent with the policy of the State of South Carolina.

J. Deferred Revenues and Deposits: Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Deposits represent tuition for international students, student fee refunds, and other miscellaneous deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

K. Compensated Absences: Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as a component of long-term liabilities in the Statement of Net Position and as a component of benefit expenses in the Statement of Revenues, Expenses, and Changes in Net Position.

L. Net Assets: The College's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets - expendable: Restricted expendable net assets include resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

The College policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources and then to unrestricted resources.

M. Income Taxes: The College is exempt from income taxes under the Internal Revenue Code.

N. Classification of Revenues: The College has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating Revenues: Operating revenues generally result from exchange transactions to provide goods or services related to the College's principal ongoing operations. These revenues include (1) student tuition and fees received in exchange for providing educational services and other related services to students; (2) receipts for scholarships where the provider has identified the student recipients; (3) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the College; and (4) grants and contracts that are essentially the same as contracts for services that finance programs the College would not otherwise undertake.

Nonoperating Revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions. These revenues include gifts and contributions, appropriations, investment income, and any grants and contracts that are not classified as operating revenue or restricted by the grantor to be used exclusively for capital purposes. Beginning fiscal year 2009-10, the SC Comptroller General's office mandated that Pell grants be reclassified as non-operating revenues from operating revenues. State fiscal stabilization funds are reported as federal non-operating revenues in the financial statements, with a portion reported as federal capital grants, as appropriate.

O. Sales and Services of Educational and Other Activities: Revenues from sales and services of educational and other activities generally consist of amounts received from instructional and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The College receives such revenues from programs such as culinary arts luncheons, horticultural plant sales, and massage therapy sessions.

P. Auxiliary Enterprises and Internal Service Activities: Auxiliary enterprise revenues primarily represent revenues generated by bookstore services and vending. Revenues of internal service and auxiliary enterprise activities and the related expenditures of college departments have been eliminated.

Q. Capitalized Interest: The College capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects that will be capitalized in the applicable capital asset categories upon completion. The College incurred $-0- of interest cost during the year ended June 30, 2017.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

R. Component Unit: The Foundation maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors. Accordingly, net assets and changes therein are classified as follows:

Permanently Restricted Net Assets: Permanently Restricted Net Assets are subject to donor-imposed stipulations that require them to be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Temporarily Restricted Net Assets: Temporarily Restricted Net Assets are subject to donor-imposed stipulations that will be met by actions of the Foundation and/or passage of time.

Unrestricted Undesignated Net Assets: Unrestricted Undesignated Net Assets are not subject to donor-imposed stipulations that will be met by actions of the Foundation and/or passage of time.

Unrestricted Designated Net Assets: Unrestricted Designated Net Assets are not subject to donor-imposed restrictions but subject to Foundation Board imposed stipulations.

Revenues are reported as increases in unrestricted net assets classification unless use of the related assets is limited by donor-imposed restrictions. Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized as revenue until the conditions on which they depend are substantially met. Contributions for in-kind gifts from outside sources are not recorded in the Foundation's financial records, but are accounted for and acknowledged separately.

Expenses are reported as decreases in unrestricted undesignated or unrestricted designated net assets as appropriate. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted undesignated or unrestricted designated net assets unless their use is restricted by explicit donor stipulation or by law.

Investments are reported at fair value based upon quoted market prices.

Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation and the SCC Foundation – Downtown Campus, LLC, a limited liability partnership, with the Spartanburg Public Facilities Corporation as a 3% partner. The Foundation has controlling interest in the LLC Partnership and all material inter-organizational transactions have been eliminated.

Contributions

Unconditional promises to give, contributions in kind, and other contributions are recorded as received and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions in kind are recorded at the fair market value of the contribution at the date of the gift. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases the respective net asset class. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

R. Component Unit, continued

Donated Services

The Foundation receives donated services from unpaid volunteers who assist in fundraising and special events. No amounts have been recognized in the Statement of Activities because the criteria for recognition under SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, have not been satisfied.

Functional Expenses

The cost of providing program activities has been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services provided.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Allowance for Doubtful Accounts

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Investments

The Foundation has adopted SFAS No. 124, *Accounting for Certain Investments Used by Not-for-Profit Organizations*. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

R. Component Unit, continued

Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. (SFAS) 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosures regarding the fair value measurements of certain financial instruments. SFAS 157 addresses acceptable valuation techniques and establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1), and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

- *Level 1 inputs* are unadjusted quoted prices for identical assets and liabilities in active markets to which the reporting entity has access.
- *Level 2 inputs* are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. They include quoted prices for similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable (for example, interest rates); and inputs that are derived from or corroborated by observable market data.
- *Level 3 inputs* are unobservable and are significant to the fair value measurement.

SFAS 157 expands disclosures about fair value measurements for certain financial assets and liabilities.

The carrying amounts of cash, receivables, accounts payable, and other accrued liabilities approximate fair value because of the short maturity of these financial instruments. The carrying values of the Foundation's funds held by the Spartanburg County Foundation are based on information provided to the Spartanburg County Foundation by external investment managers.

Property, Plant, and Equipment

Property and equipment are stated at historical cost. Acquisitions of property and equipment with useful lives exceeding one year are capitalized. Repairs and maintenance not increasing the values or extending the useful lives of the assets are expensed as incurred. Contributions of property and equipment are recorded at their fair market value at the date of the gift.

Depreciation is provided for using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the assets are as follows:

Building and Land Improvements	15-39 Years
Equipment	5 Years
Furniture and Fixtures	7 Years

Disposals of property and equipment are eliminated from the asset and accumulated depreciation accounts. Gains and losses on dispositions of property and equipment are included in income.

Depreciation expense for the year ended June 30, 2017 was $108,438 for the Foundation and $395,124 for the Downtown Campus, LLC.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

R. Component Unit, continued

Unamortized Debt Issuance Costs

On the accompanying financial statements debt issuance costs are capitalized and amortized. The unamortized portion of debt issuance costs represent the portion of the issuance costs remaining to be amortized. These costs are amortized over the term of the debt at approximately the interest method.

S. Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the South Carolina Retirement System (SCRS) and the South Carolina Police Retirement System (PORS) and additions to/deductions from SCRS' and PORS' fiduciary net position have been determined on the same basis as they are reported by the South Carolina Public Employee Benefit Authority (PEBA). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 – STATE APPROPRIATIONS

State funds for the South Carolina Technical College System are appropriated to the State Board for Technical and Comprehensive Education (the Board), and the Board allocates funds budgeted for the technical and community colleges in a uniform and equitable manner. Appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the Board receives authorization from the General Assembly to carry the funds over to the next year.

The following is a reconciliation of the state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 2017:

Non-Capital Appropriations		
Appropriations Per State Board Allocation	$	7,249,663
Lottery Technology Funds		179,124
STEM E&G Critical Needs Workforce Allocation		224,659
STEM Equipment Funding (Lottery Funds)		38,650
Appropriations from Commission on Higher		-
Education for Academic Endowment		1,848
Workforce Pathways Scholarships (Lottery Surplus)		359,020
Stem Health Equipment Special Items		94,259
SC Apprenticeship Initiative		37,116
Less: Prior Year's Appropriations Recorded As Current Year Revenue		-
Less: Prior Year's Lottery Technology Funds		-
Plus: Next Year's Appropriations Recorded As Current Year Revenue		-
Total Non-Capital Appropriations Recorded As Current Year Revenue	$	8,184,339

Capital Appropriations		
Appropriations for Cherokee Campus	$	906,816
Special Capital Reserve		1,598,596
Special Critical Equipment		1,494,997
Total Capital Appropriations Recorded As Current Year Revenue	$	4,000,409

NOTE 3 – DEPOSITS AND INVESTMENTS

DEPOSITS

State Law requires that a bank or savings and loan association receiving State funds must secure the deposits by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the State against any loss.

Custodial Credit Risk
Custodial credit risk for deposits is the risk that a government will not be able to recover deposits if the depository financial institution fails or to recover the value of collateral securities that are in the possession of an outside party if the counterparty transaction fails.

The College's policy concerning custodial credit risk is to invest surplus funds of the College in a manner that maximizes return to the College while safeguarding against any potential of loss. The President is authorized to invest surplus funds or may delegate this responsibility to the Vice President of Business Affairs. Investments shall be selected from financial institutions on a competitive basis through an informal bidding process (and all in compliance with State laws and regulations). All investments shall be protected by the Federal Deposit Insurance Corporation (FDIC), the Savings Association Insurance Fund (SAIF), and/or have sufficient pledged securities as collateral. This policy was formally approved by the Commission on August 16, 2004, and was updated and approved on May 19, 2014.

The deposits for Spartanburg Community College at June 30, 2017, were $24,447,396. Of these, $0 were exposed to custodial credit risk as uninsured and uncollateralized.

Foreign Currency Risk
Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Spartanburg Community College does not maintain deposits that are denominated in a currency other than the United States dollar; therefore, the College is not exposed to this risk.

INVESTMENTS

The College is authorized, by the South Carolina Code of Laws, Section 11-9-660, to invest in obligations of the United States and its agencies, obligations of the State of South Carolina and its political subdivisions, collateralized or federally insured certificates of deposit, and collateralized repurchase agreements.

The College had no investments at June 30, 2017.

Custodial Credit Risk
Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the College will not be able to recover the value of investments or collateral securities that are in the possession of an outside party.

The College's policy concerning custodial credit risk is to invest surplus funds of the College in a manner that maximizes return to the College while safeguarding against any potential of loss. The President is authorized to invest surplus funds or may delegate this responsibility to the Vice President of Business Affairs. Investments shall be selected from financial institutions on a competitive basis through an informal bidding process. All investments shall be protected by FDIC, and/or have sufficient pledged securities as collateral. This policy was formally approved by the Commission on August 16, 2004, and was updated and approved on May 19, 2014.

NOTE 3 – DEPOSITS AND INVESTMENTS, Continued

Custodial Credit Risk, continued

The College's investments at June 30, 2017, were held by the College or in the College's name by the College's custodial banks. The College recognized no losses due to the default by counterparts to investment transactions and amounts recovered from prior period losses.

Credit Risk
Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations.

The College's policy concerning credit risk is to invest surplus funds of the College in a manner that maximizes return to the College while safeguarding against any potential of loss. The President is authorized to invest surplus funds or may delegate this responsibility to the Vice President of Business Affairs. Investments shall be selected from financial institutions on a competitive basis through an informal bidding process. All investments shall be protected by FDIC, and/or have sufficient pledged securities as collateral. This policy was formally approved by the Commission on August 16, 2004, and was updated and approved on May 19, 2014.

The College's excess funds were held in an interest bearing checking account, which was fully insured or collateralized at June 30, 2017.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The College does not have a policy on concentration of credit risk.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. It occurs because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase, thereby affording potential purchasers more favorable rates on essentially equivalent securities.

The College does not have a policy concerning interest rate risk.

Foreign Currency Risk
Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Spartanburg Community College does not maintain investments that are denominated in a currency other than the United States dollar, and therefore, the college is not exposed to this risk.

NOTE 3 – DEPOSITS AND INVESTMENTS, Continued

Cash and Investment Reconciliation

The following schedule reconciles cash and investments as reported on the Statement of Net Position to footnote disclosure provided for deposits and investments.

STATEMENT OF NET POSITION:		
Cash and Cash Equivalents	$	22,136,143
Restricted Cash and Cash Equivalents		-
Total	$	22,136,143
DEPOSITS AND INVESTMENTS NOTE:		
Cash on Hand	$	4,932
Carrying Amounts of Deposits, Net		22,131,211
Total	$	22,136,143

Component Unit - Deposits and Investments

The deposits and investments for the Spartanburg Community College Foundation, Inc. at June 30, 2017, were as follows:

Cash	$ 520,272
Restricted Cash for Downtown Campus Development	1,022,442
TOTAL	$ 1,542,684

NOTE 3 – DEPOSITS AND INVESTMENTS, Continued

The Foundation has established several investment funds with Spartanburg County Foundation. The funds are held, managed, administered, applied and disbursed under general powers and duties of the Spartanburg County Foundation

The investment funds are carried as assets on the Foundation's financial statements, since these funds were established by the Spartanburg Community College Foundation with the Foundation as the beneficiary. The proceeds of these funds are to be used for scholarship assistance for students attending Spartanburg Community College or for the benefit of the College depending on the purpose of the individual investment funds.

The following is a summary of the activity in the investment funds for the year ended June 30, 2017, as reported by the Spartanburg County Foundation:

Balance - July 1, 2016	$	5,664,510
Contributions		45,794
Interest/Dividend Income		89,748
Realized Gains/(Losses)		(14,528)
Unrealized Gains/(Losses)		460,231
Distributions for Scholarships		(394,695)
Management Fees and Other (Grant Expense)		(71,732)
Transfer In		500,000
Balance - June 30, 2017	$	6,279,328

NOTE 4 – ACCOUNTS RECEIVABLE

Receivables as of June 30, 2017, including applicable allowances, were as follows:

Receivables:		
Student Accounts	$	997,725
Less: Allowance for Doubtful Accounts		(915,116)
Federal Grants and Other Contracts		1,307,125
Other		785,765
State Grants and Contracts		115,427
Cherokee County		2,414
Union County		1,364
Net Accounts Receivable	$	2,294,704

NOTE 4 – ACCOUNTS RECEIVABLE, Continued

Allowances for losses for student accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current account portfolio. At June 30, 2017, the allowance for uncollectible student accounts is valued at $915,116.

Component Unit – Accounts Receivable

At June 30, 2017, the amount of accounts receivable for the Foundation was $26,200.

NOTE 5 –RECEIVABLES - COMPONENT UNIT

PLEDGES RECEIVABLE

Spartanburg Community Foundation

The pledges receivable are unconditional and due over five years. Uncollectible promises are estimated at 50% of the unpaid balance, and are discounted using a net present value calculation and an effective rate of 5.0 percent.

Unconditional promises to give as June 30, 2017 are:

Receivable in Less than One Year	$	105,000
Receivable in One to Five Years		415,000
		520,000
Less Allowance for Uncollectible Amounts		(260,000)
Less Discount to Net Present Value		(54,410)
Pledges Receivable (Net)	$	205,590

NOTE 5 –RECEIVABLES - COMPONENT UNIT, Continued

LOAN RECEIVABLE

Spartanburg Community College Foundation

On December 6, 2012, and simultaneous with a $9,500,000 loan executed with Wells Fargo Bank, N.A. (the Leverage Loan Note), the SCC Foundation loaned to the SCC Investment Fund, LLC the amount of $10,495,500 at 1% per annum, to be combined with an advance on New Market Tax Credits to provide funding for the SCC Foundation – Downtown Campus, LLC Evans property renovation project. The note provides for interest only quarterly payments through April, 2020 when quarterly principal and interest payments begin, and go through 2036. In addition, a lump sum payment of $5,321,500 is due and payable April 1, 2020. The payment schedule is as follows:

Year	Payment	Principal	Interest	Repayment	Balance
2018	104,955	-	104,955	-	10,495,500
2019	104,955	-	104,955	-	10,495,500
2020	222,751	144,584	78,167	5,321,500	5,029,416
2021	340,548	291,344	49,204	-	4,738,072
2022	340,548	294,268	46,280	-	4,443,803
2023	340,548	297,222	43,326	-	4,146,581
2024	340,548	300,205	40,342	-	3,846,376
2025	340,548	303,219	37,329	-	3,543,157
2026	340,548	306,262	34,285	-	3,236,895
2027	340,548	309,336	31,211	-	2,927,559
2028	340,548	312,441	28,106	-	2,615,117
2029	340,548	315,578	24,970	-	2,299,540
2030	340,548	318,745	21,803	-	1,980,794
2031	340,548	321,945	18,603	-	1,658,850
2032	340,548	325,176	15,372	-	1,333,674
2033	340,548	328,440	12,108	-	1,005,234
2034	340,548	331,737	8,811	-	673,497
2035	340,548	335,067	5,481	-	338,430
2036	340,548	338,430	2,118	-	-

NOTE 6 – CAPITAL ASSETS

The balances of the major classes of property, plant and equipment are listed below:

Spartanburg Community College

	Beginning Balance, Restated 06/30/16	Additions	Retirements	Transfers	Ending Balance 06/30/17
Capital Assets Not Being Depreciated:					
Land and Improvements	$ 5,116,102	-	-	-	5,116,102
Construction in Progress	1,869,446	992,532	-	785,956	2,076,022
Works of Art, Historical Treasures, and Similar Assets	14,644	-	-	-	14,644
Total Capital Assets Not Being Depreciated	7,000,192	992,532	-	785,956	7,206,768
Other Capital Assets:					
Buildings and Renovations	58,748,039	-	-	785,956	59,533,995
Machinery, Equipment, and Other	9,028,473	3,489,745	968,725	-	11,549,493
Vehicles	688,970	124,800	42,020	-	771,750
Depreciable Land Improvements	2,273,513	-	-	-	2,273,513
Intangibles Assets	217,143	-	-	-	217,143
Total Other Capital Assets	70,956,138	3,614,545	1,010,745	785,956	74,345,894
Less Accumulated Depreciation For:					
Buildings and Improvements	20,350,681	1,425,549	-	-	21,776,230
Machinery, Equipment and Other	6,692,813	936,413	-	-	7,629,226
Vehicles	634,847	32,269	968,725	-	(301,609)
Depreciable Land Improvements	1,768,722	56,944	42,020	-	1,783,646
Intangibles	217,143	-	-	-	217,143
Total Accumulated Depreciation	29,664,206	2,451,175	1,010,745	-	31,104,636
Other Capital Assets, Net	41,291,932	1,163,370	-	785,956	43,241,258
Capital Assets, Net	$ 48,292,124	2,155,902	-	-	50,448,026

NOTE 6 – CAPITAL ASSETS, Continued

Property, Plant, and Equipment – Component Unit

Spartanburg Community College Foundation

The balances of the major classes of property, plant and equipment are listed below:

	Balance 6/30/2016	Additions	Deletions	Balance 6/30/2017
Land and Land Improvements	$ 589,177	-	-	589,177
Buildings	4,091,533	-	-	4,091,533
Furniture and Fixtures	3,187	-	-	3,187
Equipment	223	-	-	223
	4,684,120	-	-	4,684,120
Less Accumulated Depreciation	1,028,024	108,438	-	1,136,462
	$ 3,656,096	(108,438)	-	3,547,658

Depreciation expense for the year amounted to $108,438.

SCC Foundation-Downtown Campus, LLC:

	Balance 6/30/2016	Additions	Deletions	Transfers	Balance 6/30/2017
Building	$ 15,357,692	65,869	-	-	15,423,561
Accumulated Depreciation	781,542	395,124	-	-	1,176,666
	$ 14,576,150	(329,255)	-	-	14,246,895

Depreciation expense for the year amounted to $395,124.

NOTE 7 – CONTINGENCIES, LITIGATION, & PROJECT COMMITMENTS

The College may be party to various lawsuits arising out of the normal conduct of its operations. In the opinion of College management, there are no material claims or lawsuits against the College that are not covered by insurance or whose settlement would materially affect the College's financial position.

The College participates in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant.

NOTE 7 – CONTINGENCIES, LITIGATION, & PROJECT COMMITMENTS, Continued

Necessary funding has been obtained for the construction, renovation, and equipping of certain facilities, which will be capitalized in the applicable capital asset categories upon completion. At June 30, 2017, the College had no remaining commitment balances with certain engineering firms, construction contractors, and vendors related to these projects.

Other capital projects, which are not to be capitalized when completed, are for replacements, repairs, and/or renovations to existing facilities. There were no remaining commitment balances with any parties related to these projects at June 30, 2017.

The College anticipates funding these projects out of current resources, private gifts, or student fees.

Four buildings, the Health Sciences Building on the main campus, the Academic Building and the Center for Advance Manufacturing and Industrial Technologies (CAMIT) on the Cherokee County campus, and the Center for Business and Entrepreneurial Development (CBED) on the Tyger River campus were partially funded by grants from the Economic Development Administration (EDA). As a condition of the grants, the College entered into a twenty-year mortgage agreement on the properties with the EDA. The mortgage creates a contingent liability that would be imposed in the event that Spartanburg Community College acted in a manner prohibited by the award. According to the agreement, the College may not transfer or convey, including leasing the properties, without the written consent of EDA. The College must maintain insurance coverage and must keep the property in good condition. The possibility of this mortgage resulting in a liability for the College is remote. Therefore, the contingent liability is not reflected in the College's financial statements.

Capital Leases:

The College entered into a 20-year lease agreement with Spartanburg Community College Foundation on September 29, 2005. This agreement is for the lease of the Business Training Center on the Cherokee Campus. The lease began on the first day of the month after the month in which the facility was ready for occupancy. The first payment was due on January 25, 2007.

Spartanburg Community College has the option to purchase all of its rights, title, and interest at any time during the initial term or any extended term of the lease at a price equal to the sum of (a) the 2003 land appraisal of the value of the land per acre, times the acreage of the leased property, (b) the Spartanburg Community College Foundation's un-financed capital expenditures invested in the facility and other improvements on the property, and (c) the aggregate outstanding balance of all loans incurred by the Foundation to construct the building, access roads, and parking.

The cost of the building is $2,578,561 and the accumulated depreciation is $644,640 at June 30, 2017.

The capital lease payment to Spartanburg Community College Foundation was $199,000 for the year ended June 30, 2017.

NOTE 8 – LEASE OBLIGATIONS

Future minimum payments to be paid:

Year Ended June 30		Capital Lease with Discretely Presented Component Units
2018	$	199,000
2019		199,000
2020		199,000
2021		199,000
2022		199,000
2023-2026		796,000
Total Minimum Payments	$	1,791,000
Less: Interest		(314,912)
Present Value of Net Minimum Lease Payment	$	1,476,088

Operating Leases:

On November 1, 2012, the Spartanburg County Commission for Technical and Community Education entered into a Facility Lease agreement with the Spartanburg Community College Foundation-Downtown Campus, LLC. The initial term of the lease is twenty years beginning on the first day of the calendar quarter after delivery of the certificate of occupancy by the State of South Carolina Office of State Engineer. Upon formation of the LLC Partnership and pursuant to the facilities lease, the College transferred $825,760 to the LLC Partnership as an amount for the renovation and construction of leasehold improvements with respect to the project and to reduce further lease payments to the LLC Partnership. During the current year, the College paid a total of $876,304 in lease payments to the Downtown Campus, LLC pursuant to the facilities lease. No portion of the base rent shall be divided into principal and interest components, and this lease does not contain any reference to any portion of any payments being treated as interest.

Future minimum payments to be paid:

Year Ended June 30		Capital Lease with Discretely Presented Component Units
2018	$	893,828
2019		911,704
2020		929,940
2021		1,000,000
2022		1,030,000
2023-2027		5,632,464
2028-2032		6,529,564
2033		1,425,760
Total Minimum Payments	$	18,353,260

NOTE 8 – LEASE OBLIGATIONS, Continued

Operating Leases: continued

Future commitments for copier and postage meter operating leases having remaining non-cancelable terms in excess of one year as of June 30, 2017 were as follows:

Year Ended June 30	Operating Leases with External Parties
2018	$ 57,790
2019	51,968
2020	12,378
Total Minimum Payments	$ 122,136

Contingent rentals for copier leases paid on a cost-per-copy basis are as follows:

Year Ended June 30	Operating Leases With External Parties
2017	$ 50,409

The College's non-cancelable operating leases provide for renewal options for periods from one to three years at their fair rental value at time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases and are generally payable on a monthly basis. Total rental payments for copier equipment were $42,149 for fiscal year 2017. The rental payments for the postage meter were $15,641, and the College paid $50,409 for cost-per-copy copiers.

Facilities Leased to Others:

On June 17, 2013, Spartanburg Community College entered into a Sub-lease agreement with Spartanburg County School District No. 7, commencing on July 1, 2013, and terminating on June 30, 2018, for a total of five years. Spartanburg County School District No. 7 will pay Spartanburg Community College $15.34 per square foot leased, which will be paid in annual installments of $83,863.78 on or before the 10th day of July each consecutive calendar year of the term beginning on July 1, 2013. The College received $83,863.78 in lease payments in FY 2014, 2015 and 2016. Spartanburg County School District No. 7 also paid a deposit of $6,988.65 as security of the full and faithful performance of every provision of the Sublease.

On February 8, 2013, Spartanburg Community College entered into a Sub-lease agreement with SC Works commencing on October 1, 2013, and terminating June 30, 2016, for a total of two years and eight months. For the first term of the sublease, October 1, 2013 – June 30, 2014, SC Works paid Spartanburg Community College $11.00 per square foot leased ($108,075 total), which was paid in equal monthly installments of $12,008.33 on or before the tenth day of each consecutive calendar month of the term. A security deposit of $12,008.33 was also received by the College as security of the full and faithful performance of every provision of the Sublease.

NOTE 8 – LEASE OBLIGATIONS, Continued

Facilities Leased to Others: continued

For the second term of the sublease with SC Works, July 1, 2014 – June 30, 2016, SC Works paid Spartanburg Community College $12.00 per square foot leased ($157,200 total), which was paid in equal monthly installments of $13,100.00 on or before the tenth day of each consecutive calendar month of the term. On June 16, 2015, the third term of the sublease, July 1, 2015 – June 30, 2016, was amended. For the third term, SC Works will pay Spartanburg Community College $10.00 per square foot leased ($131,000 total), which will be paid in equal monthly installments of $10,916.67 on or before the tenth day of each consecutive calendar month of the term. On June 8, 2016 the fourth term of the sublease, July 1, 2016- June 30, 2019, was amended with the same payments and square footage as the third term.

Facilities Leased to Others – Component Unit

Spartanburg Community College Foundation

The Foundation has entered into a twenty year lease agreement with Spartanburg Community College that expires in 2027. Under this lease agreement the College pays rent to the Foundation for use of the Cherokee County Campus building and equipment in the amount of $199,000 per year. At June 30, 2016, the net book value of the leased building and equipment was $2,060,402, including accumulated depreciation of $751,104 and current year depreciation expense of $75,617. Pursuant to the terms of the lease, future minimum rental payments are expected to be $199,000 per year for each of the next 12 years.

The LLC Partnership entered into a facilities lease agreement with the Spartanburg Community College to lease the renovated Downtown Campus facility to the College over a period of 20 years, beginning approximately July 1, 2013, for between $206,440 and $356,440 per calendar quarter over the term of the lease. This lease is pledged as collateral for the debt. Upon formation of the LLC Partnership and pursuant to the facilities lease, the College transferred $825,760 to the LLC Partnership as an amount for the renovation and construction of leasehold improvements with respect to the project and to reduce further lease payments to the LLC Partnership. This payment is reflected as lease income to the SCC Foundation – Downtown Campus, LLC and as lease expense to the College. During the current year the College paid a total of $876,304 in lease payments to the Downtown Campus, LLC pursuant to the facilities lease.

Facilities Leased to Others – Component Unit

Spartanburg Community College Foundation

The Foundation has also entered into a twenty year lease agreement with a tenant for 3.45 acres of land located in Cherokee County that expires in 2027. At June 30, 2016, the book value of the leased land was $103,451. The lease payment is $1,440 per year. Pursuant to the terms of the lease, future minimum rental payments are expected to be $1,440 per year for each of the next 12 years. Lease income for the current fiscal year was $1,440 under this lease.

NOTE 9 – LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2017 was as follows:

	June 30, 2016	Addition	Reductions	June 30, 2017	Due Within One Year
Capital Lease Obligations	$ 1,608,283	-	132,195	1,476,088	199,000
Accrued Compensated Absences	1,604,270	-	82,636	1,521,634	75,681
Total Long-Term Liabilities	$ 3,212,553	-	214,831	2,997,722	274,681

Long-Term Liabilities –Component Unit

Spartanburg Community College Foundation:

During October 2005, the Foundation was issued an Economic Development Bond by the South Carolina Jobs Economic Development Authority to defray the cost of acquiring, by construction and purchase, a Cherokee County Campus for use by Spartanburg Community college. The bond matures October 1, 2025. Interest and principal on the outstanding balance is payable semi-annually. This original bond above bore interest at 4.24%, and provided for Semi-annual payments of principal and interest in the amount of $96,468.54 due April 17 and October 17 of each year.

During the year, and subsequent to the October, 2015 principal and interest payment, the remaining balance of the loan in the amount of $1,559,283.74 was re-financed at a lower interest rate of 1.86% over the remaining term, thus lowering the annual debt service from $192,937 to $171,600, or a total of $213,362 over the remaining ten years. Semi-annual payments of principal and interest are due October 1 and April 1 of each year.

The long-term debt maturities required in the future and in the aggregate are as follows:

June 30	Principal	Interest	Total
2018	$ 147,296	24,305	171,601
2019	150,048	21,553	171,601
2020	152,852	18,749	171,601
2021	155,708	15,893	171,601
2022	158,617	12,984	171,601
2023-2026	578,870	21,733	600,603
	$ 1,343,391	115,217	1,458,608

NOTE 9 – LONG-TERM LIABILITIES, Continued

Long-Term Liabilities – Component Unit, continued

Spartanburg Community College Foundation:

The Foundation on December 6, 2012, borrowed $9,500,000 from Wells Fargo Bank, N.A. at 4.64% per annum. The loan is termed "Senior Loan" and is secured by a security interest in the Foundation Fundraising and Donations Account, which receives and holds all donations collections for the Downtown Campus, along with a lien on the Foundation's Security Interest in the Leverage Loan Note Receivable of $10,495,500. For the current year the Foundation did not meet the Debt Coverage Ratio requirement of 1.1:1 as provided in the Loan Agreement. However, the donations collected prior to 2016 have a current balance in the bank which will cover the loan payment debt service on a cumulative cash flow basis going forward, therefore ensuring the satisfaction for Wells Fargo to have the confidence in SCCF meeting the loan obligation.

The note provides for quarterly interest payments and annual principal payments as follows:

Year	Payment	Principal	Interest	Loan Repayment
2018	$ 797,927	500,000	297,927	-
2019	774,727	500,000	274,727	-
2020	583,096	453,500	129,596	5,321,500
	$ 2,155,750	1,453,500	702,250	5,321,500

A summary of the outstanding debt at June 30 is as follows:

	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017
Economic Development Bond	$ 1,487,985	-	144,594	1,343,391
Wells Fargo Bank, N.A.	7,425,000	-	650,000	6,775,000
Total	$ 8,912,985	-	794,594	8,118,391

Interest expense for the year ended June 30, 2017 was $337,027, none of which was capitalized as project cost during the year.

NOTE 9 – LONG-TERM LIABILITIES, Continued

Long-Term Liabilities – Component, continued

SCC Foundation-Downtown Campus, LLC:

The SCC Foundation-Downtown Campus, LLC has issued and executed, on December 6, 2012, four separate notes with a bank and its subsidiaries (Wells Fargo Community Development Enterprise Round 9 Subsidiary 4, LLC, a Delaware limited liability company and NDS New Markets Investments LXXII, LLC, a Delaware limited liability company) in the total amount of $14,640,000, for the renovation and construction of improvements to the Evans property, which is to be the Spartanburg Community College's downtown campus facility.

The notes mature October 2047, and interest and principal are payable quarterly on the outstanding balance. The notes bear interest at .948 percent per annum. The interest paid for the year ended June 30, 2017 of $129,509 has been reflected as expense in the Statement of Activities.

The notes provide for the payment of interest only beginning January 5, 2013 until January 5, 2020 when the first normal principal payment is due. In addition, two of the loans provide for a Lump-sum principal payment, totaling $5,321,500 on April 1, 2020.

The debt maturities for the four separate notes are outlined below:

	NDC CDE		Wells Fargo CDE		Total	Issuance
June 30	**Loan A**	**Loan B**	**Loan A**	**Loan B**	**Debt Principal**	**Costs**
2018	$ -	-	-	-	$ -	-
2019	-	93,708	-	-	93,708	-
2020	3,242,428 (1)	35,883	2,161,620	28,748	5,468,679	-
2021	99,768	72,277	66,512	57,905	296,462	-
2022	100,717	72,965	67,144	58,456	299,282	-
2023-2027	518,141	375,368	345,426	300,730	1,539,665	-
2028-2032	543,260	393,567	362,174	315,309	1,614,310	-
2033-2037	569,599	412,648	379,733	330,595	1,692,575	-
2038-2042	597,216	432,654	398,144	346,624	1,774,638	-
2043-2047	626,171	453,630	417,447	363,433	1,860,681	-
	$ 6,297,300	2,342,700	4,198,200	1,801,800	$ 14,640,000	-
Less Unamortized Debt Issuance Costs					(281,844)	
					14,358,156	
Original Loan Amount	$ 6,297,300	2,342,700	4,198,200	1,801,800	$ 14,640,000	
Quarterly Interest	$ 14,925	5,552	9,950	4,270	$ 34,697	
Annual Interest	$ 59,698	22,209	39,799	17,081	$ 138,787	
(1) Lump-Sum Principal Due 4/1/2020	$ 3,192,900	-	2,128,600	-	$ 5,321,500	

These notes are secured by a twenty-year facilities lease for the renovated facilities. See Note 14.

The "B" loans, which represent in essence the new market tax credit portion of the project financing, are to be substantially mitigated, or paid, at the end of the new market tax credit compliance period of approximately 7 years.

NOTE 10 – PENSION PLANS

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board (State Fiscal Accountability Authority effective July 1, 2015), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems (Systems) and serves as a co-trustee of the Systems in conducting that review.

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles (GAAP). For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan Description

The South Carolina Retirement System (SCRS), a cost–sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions.

The State Optional Retirement Program (State ORP) is a defined contribution plan that is offered as an alternative to SCRS to certain newly hired state, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers.

The South Carolina Police Officers Retirement System (PORS), a cost–sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.

NOTE10 – PENSION PLANS, Continued

Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

State ORP - As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (State ORP), which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not considered part of the retirement systems' trust funds for financial statement purposes. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment provides for the employee contribution and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution and an incidental death benefit contribution, if applicable, which is retained by SCRS.

PORS - To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; or to serve as a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least $2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of benefit terms for each system is presented below.

SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members.

<u>NOTE 10– PENSION PLANS</u>, Continued

<u>Benefits</u>, continued

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

The benefit formula for full service retirement annuity effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class Two members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class Three members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included.

PORS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class Two and Class Three members are eligible to receive a deferred annuity at age 55 with five or eight years of earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

The benefit formula for full benefits for the PORS is 2.14 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class Two members, AFC is the average annual compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay for unused annual leave. For Class Three members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, a retiree may roll over some or all of the accumulated TERI balance into a qualified, tax-sheltered retirement plan and/or receive a lump-sum distribution. Because participants are considered retired during the TERI period, they do not earn service credit and are ineligible for disability retirement benefits. The TERI program will end effective June 30, 2018 and a member's participation may not continue after this date.

NOTE 10 – PENSION PLANS, Continued

Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. Upon recommendation by the actuary in the annual actuarial valuation, the PEBA Board may adopt and present to the Budget and Control Board for approval an increase in the SCRS and PORS employer and employee contribution rates, but any such increase may not result in a differential between the employee and total employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS and 5 percent for PORS. An increase in the contribution rates adopted by the Board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the Board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the Board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

Effective July 1, 2016, employees participating in the SCRS were required to contribute 8.66% of all earnable compensation. The employer contribution rate for SCRS was 17.06%. Included in the total SCRS employer contribution rate is a base retirement contribution of 11.41%, 0.15% for the incidental death benefit program and a 5.50% surcharge that will fund retiree health and dental insurance coverage. The College's actual retirement and incidental death benefit program contributions for participating employees and TERI participants to the SCRS for the years ended June 30, 2017, 2016, and 2015 were:

	Retirement		Incidental Death	
Fiscal Year Ended	Rate	Contribution	Rate	Contribution
2017	13.410%	$ 1,797,717	0.15%	$ 23,633
2016	10.910%	$ 1,676,647	0.15%	$ 23,052
2015	10.750%	$ 1,651,530	0.15%	$ 23,045

Effective July 1, 2016, employees participating in the PORS were required to contribute 9.24% of all earnable compensation. The employer contribution rate for PORS was 19.74%. Included in the total PORS employer contribution rate is a base retirement contribution of 13.84%, 0.20% for the incidental death benefit program, 0.20% for the accidental death program, and a 5.50% surcharge that will fund retiree health and dental insurance coverage. The University's actual retirement, incidental death benefit program and accidental death program contributions to the PORS for the years ended June 30, 2017, 2016, and 2015 were:

Fiscal Year	Retirement		Incidental Death		Accidental Death	
Ended	Rate	Contribution	Rate	Contribution	Rate	Contribution
2017	15.840%	$ 3,715	0.20%	$ 54	0.20%	$ 54
2016	13.340%	$ 5,027	0.20%	$ 75	0.20%	$ 75
2015	13.010%	$ 5,223	0.20%	$ 80	0.20%	$ 80

NOTE 10 – PENSION PLANS, Continued

Contributions, continued

Employee and employer contributions to the State ORP are at the same rates as SCRS. Employees participating in the State ORP were required to contribute 8.66% of all earnable compensation. In fiscal year 2017, the employer contribution rate for the State ORP was 11.56% plus the retiree surcharge of 5.50% that will fund retiree health and dental insurance coverage. Of the 11.56% employer contribution rate, the employer remits 5.00% directly to the participant's ORP account and the remaining 6.56% retirement contribution and 0.15% incidental death benefit program contribution amounts are remitted to SCRS.

For fiscal year 2017, total contributions requirements to the ORP were approximately $155,563 (excluding the surcharge) from the College as employer.

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revision, typically with an experience study, as actual results over an extended period of time are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study, performed on data through June 30, 2015, is currently underway.

The June 30, 2016, total pension liability, net pension liability, and sensitivity information were determined by PEBA's consulting actuary Gabriel, Roeder, Smith and Company (GRS) and are based on the July 1, 2015, actuarial valuations, as adopted by the PEBA Board and Budget and Control Board which utilized membership data as of 2015. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2016, using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS.

The following provides a summary of the actuarial assumptions and methods used in the July 1, 2015, valuations for SCRS and PORS.

	SCRS	PORS
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return [1]	7.5%	7.5%
Projected Salary Increases	3.5% to 12.5% (varies by service) [1]	4.0% to 10.0% (varies by service) [1]
Benefit Adjustments	Lesser of 1% or $500 annually	Lesser of 1% or $500 annually

1 *Includes inflation at 2.75%*

NOTE 10 – PENSION PLANS, Continued

Actuarial Assumptions and Methods, continued

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000. Assumptions used in the July 1, 2015, valuations for SCRS and PORS are as follows.

Former Job Class	Males	Females
Educators	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety and Firefighters	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined by PEBA in accordance with GASB 67 less that System's fiduciary net position.

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements located at http://www.peba.sc.gov/assets/financialsretirement.pdf. The net pension liability is disclosed in accordance with the requirements of GASB 67 in the Systems' notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the plans' funding requirements.

A plan's Net Pension Liability (NPL) is determined by reducing its total pension liability by its fiduciary net position. Total pension liability is defined by the Governmental Accounting Standards Board (GASB) as the portion of the actuarial present value of projected benefit payments that is attributed to past periods of member service in conformity with the requirements of GASB 67. Total pension liability may be impacted annually by the cost of service accrued by participants, interest accrued on the liability, the impact of benefit and assumption changes, the cost of benefit payments, and the difference between expected and actual plan experience. The most significant impact on a plan's fiduciary net position relates to the rate of return on its investments. Consequently, significant fluctuations in the market value of investments substantially affect the fiduciary net position component of the NPL calculation, and as a result, cause a direct change in the NPL.

NOTE 10 – PENSION PLANS, Continued

As previously communicated by PEBA, the financial reporting changes required by GASB 68 are likely to result in increased volatility in an employers' reported proportionate share of the NPL from one year to the next. Regardless of the NPL reported on the employer's financial statements, the employer is responsible only for making the contributions required by state law during any given year. Employers cannot pay down or pay off their proportionate share of the NPL because SCRS and PORS are multiple employer, cost-sharing defined benefit plans.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The most recent annual actuarial valuation reports adopted by the PEBA Board and Budget and Control Board are as of June 30, 2015. The net pension liability of each defined benefit pension plan was therefore determined based on the June 30, 2015 actuarial valuations, using membership data as of June 30, 2015, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2017, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by PEBA's' consulting actuary.

At June 30, 2017, the College reported liabilities of $36,374,333 and $74,978 for its proportionate share of the net pension liabilities of SCRS and PORS, respectively. The net pension liability was measured as of June 30, 2015. The College's proportion of the net pension liability was based on the University's share of contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2016, the College's SCRS and PORS proportion was 0.170293% and 0.00296%, respectively.

For the year ended June 30, 2017, the College recognized pension expenses of $2,583,833 and $5,919 for SCRS and PORS, respectively.

NOTE 10 - PENSION PLANS, Continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued

At June 30, 2017, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SCRS	PORS
Deferred Outflows of Resources		
Liability Experience	377,063	1,113
Investment Experience	3,060,250	8,502
Change in Proportion and Difference Between Employer Contribution and Proportionate Share of Plan Contributions	-	-
College Contributions Subsequent to the Measurement Date	1,980,554	3,823
TOTAL	$ 5,417,867	13,438
Deferred Inflows of Resources		
Liability Experience	39,503	-
Investment Experience	1,683,163	8,056
Change in Proportion and Difference Between Employer Contribution and Proportionate Share of Plan Contributions	-	-
TOTAL	$ 1,722,666	8,056

The $1,980,554 and $3,823 reported as deferred outflows of resources related to pensions resulting from the College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	SCRS	PORS
2018	$ 188,811	(315)
2019	(8,282)	(372)
2020	878,430	1,165
2021	655,688	1,082
Thereafter	-	-

NOTE 10 - PENSION PLANS, Continued

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments, as used in the July 1, 2015, actuarial valuations, was based upon the 30 year capital markets outlook at the end of the third quarter 2015. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the revised target asset allocation adopted beginning January 1, 2016. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
Global Equity	**43.0%**		
Global Public Equity	34.0%	6.52%	2.22%
Private Equity	9.0%	9.30%	0.84%
Real Assets	**8.0%**		
Real Estate	5.0%	4.32%	0.22%
Commodities	3.0%	4.53%	0.13%
Opportunistic	**20.0%**		
GTAA/Risk Parity	10.0%	3.90%	0.39%
HF (Low Beta)	10.0%	3.87%	0.39%
Diversified Credit	**17.0%**		
Mixed Credit	5.0%	3.52%	0.17%
Emerging Markets Debt	5.0%	4.91%	0.25%
Private Debt	7.0%	4.47%	0.31%
Conservative Fixed Income	**12.0%**		
Core Fixed Income	10.0%	1.72%	0.17%
Cash and Short Duration (Net)	2.0%	0.71%	0.01%
Total Expected Real Return	100.0%		5.10%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			7.85%

NOTE 10 - PENSION PLANS, Continued

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that the funding policy specified in the South Carolina State Code of Laws will remain unchanged in future years. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis

The following table presents the College's proportionate share of the SCRS and PORS net pension liability calculated using the discount rate of 7.50 percent, as well as what the College's respective net pension liability would be if it were calculated using a discount rate of 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

Plan	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
SCRS	$ 45,375,985	36,374,333	28,880,798
PORS	98,265	74,978	54,054

Additional Financial and Actuarial Information

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the Systems' audited financial statements for the fiscal year ended June 30, 2016 located at http://www.peba.sc.gov/assets/financialsretirement.pdf (including the unmodified audit opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2016 located at http://www.peba.sc.gov/assets/06.30.2015-gasb-68_report_final-protected.pdf .

NOTE 11 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. Spartanburg Community College contributes to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), cost-sharing multiple employer defined benefit postemployment healthcare and long-term disability plans administered by the Insurance Benefits Division (IB) of the South Carolina Public Employee Benefit Authority (PEBA).

Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15 through 24 years of service for 50% employer funding.

Benefits become effective when the former employee retires under a State retirement system. Basic Long-Term Disability (BLTD) benefits are provided to active state, public school district, and participating local government employees approved for disability.

Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 5.50% of annual covered payroll for 2017 and 5.33% of annual covered payroll for 2016. The IB sets the employer contribution rate based on a pay-as-you-go basis. Spartanburg Community College paid approximately $1,019,033 and $930,458 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2017 and 2016, respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was $3.22 and $3.50 for the fiscal years ended June 30, 2017 and 2016, respectively. Spartanburg Community College recorded employer contributions expenses applicable to these insurance benefits for active employees in the amount of approximately $11,813 and $12,180 for the years ended June 30, 2017 and 2016, respectively.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated IB reserves, and income generated from investments. The SCLTDITF is primarily funded through investment income and employer contributions.

A copy of the separately issued financial statements for the benefit plans and the trust funds may be obtained by writing to the South Carolina Public Employee Benefit Authority – Insurance Benefits Division, P.O. Box 11960, Columbia, South Carolina 29211-1960.

NOTE 12 – ACCOUNTS PAYABLE

Accounts payable as of June 30, 2017 are summarized as follows:

Accounts Payable, Student Credit Balances	$	249,114
Accounts Payable, Unrestricted		923,353
Total Accounts Payable	$	1,172,467

NOTE 13 – BONDS AND NOTES PAYABLE

The College did not have any outstanding bonds or notes payable at June 30, 2017.

NOTE 14 – TEMPORARILY RESTRICTED NET ASSETS – COMPONENT UNIT

The Spartanburg Community College Foundation's temporarily restricted net assets as of June 30, 2017 consisted of the following:

Endowment Funds Held by Spartanburg County Foundation	$	832,070
BMW Scholarship Funds		4,947,257
Other Balances Held for College Support/Other		599,289
Assets Restricted for Long-Term Assets		1,245,964
Total	$	7,624,580

NOTE 15 – RELATED PARTIES

A certain separately chartered legal entity whose activities are related to those of the College exists primarily to provide financial assistance and other support to the College and its educational program. Financial statements for that entity are prepared by accountants and retained by the Spartanburg Community College Foundation (the "Foundation").

Management reviewed its relationship with the Foundation under existing guidance of GASB Statement No. 14, as amended by GASB 39. Because of the nature and significance of its relationship with the College, the Foundation is considered a component unit of the College.

Following is a more detailed discussion of the Foundation and a summary of significant transactions between the Foundation and the College for the year ended June 30, 2017.

<u>NOTE 15 – RELATED PARTIES</u>, Continued

<u>Related Parties – Component Unit</u>, continued

The Spartanburg Community College Foundation

Due to the purpose of The Foundation, Spartanburg Community College (the college) is a related party. The Foundation seeks funds and resources to further the educational mission of the college. It provides to the college's students, scholarships, while the college provides to the Foundation, the personnel to manage the Foundation's activities. All transactions are conducted at arms-length.

On January 13, 2012, the foundation formed the SCC Foundation-Downtown Campus, LLC, a partnership, with the Spartanburg Public Facilities Corporation as a 3% partner (the LLC Partnership), for the purpose of renovating the Evans building, the new downtown campus project, and to qualify for and obtain new market tax credits amounting to approximately $5.85 million. These new market tax credits represent 39% of the total project amount of $15 million. The majority of the tax credits, 77%, will ultimately enhance the project by funding the overall cost and reducing the related debt repayment.

The Evans property had been purchased by Spartanburg Community College in January 2011 and the College maintains ownership. The College entered into a ground lease of this property with and to the LLC Partnership for 55 years at $1 per year, beginning on November 1, 2012, and ending October 31, 2067.

The LLC Partnership entered into a facilities lease agreement with the Spartanburg Community College to lease the renovated facility to the College over a period of 20 years, beginning approximately July 1, 2013, for between $206,440 and $356,440 per calendar quarter over the term of the lease. This lease is pledged as collateral for the debt. Upon formation of the LLC Partnership and pursuant to the facilities lease, the College transferred $825,760 to the LLC Partnership as an amount for the renovation and construction of leasehold improvements with respect to the project and to reduce further lease payments to the LLC Partnership.

On December 6, 2012, the Foundation borrowed $9,500,000 from Wells Fargo Bank, N.A. at 4.64% per annum which the Foundation then loaned to the SCC Investment Fund, LLC $10,495,500 at 1.0% per annum. Wells Fargo Community Investment Holdings, LLC then made a capital contribution to the SCC Investment Fund, LLC in the amount of $4,504,500 which represented 77% of the New Market Tax Credits. These amounts were transferred 40% to the Wells Fargo Community Development Enterprise Round 9 Subsidiary 4, LLC and 60% to the NDC New Markets Investments LXXII, LLC who each in turn made loans to the SCC Foundation – Downtown Campus, LLC, after a sub-allocation fee of $360,000. These loans totaled $14,640,000, and are reflected in note 8 to these financial statements.

The SCC originally contracted for the renovation project with a construction contractor and project engineer/supervisor. These contracts were subsequently assigned to the LLC partnership. Up to this point, the College had expended $1,550,222 in initial payments for the project, and was subsequently reimbursed out of initial loan draws, resulting in this cost and related debt being reflected on the books of the LLC Partnership. Subsequent to these assignments, on December 6, 2012, SCC Foundation-Downtown Campus, LLC, assigned to Wells Fargo Community Development Enterprise Round 9 Subsidiary 4, LLC, a Delaware limited liability company and NDC New Markets Investments LXXII, LLC, a Delaware limited liability company all of its right, title and interest, in and to the architectural agreements and plans and specifications in connection with project and its rights under all construction agreements relating to the acquisition, renovation, development and construction of additional improvements to the property and the project.

<u>NOTE 15 – RELATED PARTIES</u>, Continued

<u>Related Parties – Component Unit</u>, continued

The Spartanburg Community College Foundation

The College recorded non-governmental gifts receipts of $773,131 from the Foundation in non-operating revenues for the fiscal year ending June 30, 2017. These funds were used to support College programs such as scholarships and to fund equipment and faculty and staff development. The Foundation reimburses the College for any purchases made by the College on behalf of the Foundation. The College provides office space and support services to the Foundation. Additionally, the Foundation paid the College a total of $10,000 for administrative services during the year.

The College paid the Foundation, LLC Partnership $876,304 for renovation and construction expenses and to reduce future lease payments, per the agreement outlined above.

As referenced in Note 8, the College also leases a building located in Cherokee County from the Foundation. Lease expense from the College to the Foundation was $199,000 for the year ended June 30, 2017.

The consolidated Foundation's assets including the SCC Foundation – Downtown Campus, LLC, as of June 30, 2017, were $29,595,094.

There are no related party receivables and payables as of June 30, 2017.

<u>NOTE 16 – RISK MANAGEMENT</u>

The College is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settlement claims have not exceeded this coverage in any of the past three years.

The State of South Carolina believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several state funds accumulate assets and the State itself assumes substantially all the risk for the following claims of covered employees:

Unemployment compensation benefits
Worker's compensation benefits for job-related illnesses or injuries
Health and dental insurance benefits
Long-term disability and group-life insurance benefits

Employees elect health insurance coverage through either a health maintenance organization or through the State's self-insured plan.

The College and other entities pay premiums to the State's Insurance Reserve Fund (IRF), which issues policies, accumulates assets to cover the risk of loss, and pays claims incurred for covered losses relating to the following activities:

Theft, damage to, or destruction of assets
Real property, its contents, and other equipment
Motor vehicles and watercraft
Torts
Natural disasters
Medical malpractice claims

NOTE 16 – RISK MANAGEMENT, Continued

The IRF is a self-insurer and purchases reinsurance to obtain certain services and to limit losses in certain areas. The IRF's rates are determined actuarially.

The College is insured through the State's blanket fidelity bond insurance policy for all employees for losses arising from theft or misappropriation.

NOTE 17 – OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2017 are summarized as follows:

	Compensation	Benefits	Scholarships and Fellowships	Utilities	Supplies and Other Services	Depreciation	Total
Instruction	$ 9,925,245	3,147,537	-	-	3,427,936	-	16,500,718
Academic Support	2,074,115	697,676	-	-	1,139,541	-	3,911,332
Student Support	2,075,965	866,159	-	-	1,305,838	-	4,247,962
Operation & Maintenance of Plant	1,557,921	557,539	-	1,103,639	3,056,268	-	6,275,367
Institutional Support	3,839,853	2,074,361	-	-	1,471,303	-	7,385,517
Scholarships & Fellowships	-	-	4,466,025	-	-	-	4,466,025
Auxiliary Enterprises	148,155	45,102	-	-	2,063,444	-	2,256,701
Depreciation	-	-	-	-	-	2,451,175	2,451,175
Total Operating Expenses	$ 19,621,254	7,388,374	4,466,025	1,103,639	12,464,330	2,451,175	47,494,797

NOTE 18 – PURCHASES WITH OTHER SC HIGHER EDUCATION INSTITUTIONS

The College had significant financial transactions with other South Carolina public institutions of higher education during the fiscal year ended June 30, 2017. The College received goods and/or services from other South Carolina higher education institutions for a fee, as listed below:

	Purchases
Aiken Technical College	$ 1,150
Central Carolina Technical College	211
Clemson University	3,200
Coastal Carolina University	110
Florence Darlington Technical College	395
Francis Marion University	100
Midlands Technical College	1,895
Piedmont Technical College	396
University of South Carolina	610
University of South Carolina-Upstate	934
Total Purchases	$ 9,001

NOTE 19 – STATEMENT OF ACTIVITIES

	2017	2016	Increase/ (Decrease)
Charges for Services	$ 20,108,880	19,702,570	406,310
Operating Grants and Contributions	16,247,805	18,771,303	(2,523,498)
Capital Grants and Contributions	2,430,016	2,755,665	(325,649)
Less: Expenses	(47,560,139)	(48,999,796)	1,439,657
Net Program Revenue (Expense)	(8,773,438)	(7,770,258)	(1,003,180)
Transfers:			
State Appropriations	8,184,339	8,150,481	33,858
State Capital Appropriations	4,000,409	1,906,816	2,093,593
Capital Improvement Bond Proceeds		-	-
Total General Revenue and Transfers	12,184,748	10,057,297	2,127,451
Change in Net Assets	3,411,310	2,287,039	1,124,271
Net Assets - Beginning of Year	30,624,565	28,337,526	2,287,039
Net Assets - Ending	$ 34,035,875	30,624,565	3,411,310

NOTE 20 – TRANSACTIONS WITH OTHER AGENCIES

The College had significant transactions with the State of South Carolina and various agencies.

Several services received at no cost from state agencies include maintenance of certain accounting records by the Comptroller General; check preparation, banking, bond trustee, and investment services from the State Treasurer; and legal services from the Attorney General.

Other services received at no cost from the various offices of the State Budget and Control Board include pension plan administration, insurance plans administration, grant services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

NOTE 21 – TAX ABATEMENTS

The College receives support in the form of property tax revenue from the three Counties in its service area: Cherokee County, Spartanburg County and Union County. Each of the Counties has entered into various property tax abatement agreements with local businesses.

Companies that are located in South Carolina and are classified as manufacturing facilities are subject to *ad valorem taxes*. The fair market value is multiplied by the assessment ratio, generally equal to 10.5%, to produce the assessed value and then multiplied by the millage rate. The three counties provide certain tax reductions through the following programs:

1. Fee in Lieu of Ad Valorem Tax
2. Special Source Revenue Credit

The *Fee in Lieu of Ad Valorem Tax* program is intended to encourage investment in commercial and industrial investments in South Carolina. The property tax reduction is granted pursuant to Chapter 44 of Title 12 of the South Carolina Code of Laws of South Carolina 1976 as amended. Taxpayers are eligible to receive a reduction in property taxes, through reduced assessed values and locked millage rates, if they enter into an agreement with the County and invest at least $2.5 million in taxable property (or some other negotiated investment floor) within a 5 year period. Under the *Fee in Lieu of Ad Valorem Tax* program, if a taxpayer does not make the required investment within the 5 year period, then the reduced property taxes terminate and the taxpayer must repay the County the difference between the abated taxes received and what the taxpayer would have paid had it not had the benefit of the *Fee in Lieu of Ad Valorem Tax* program.

The three counties that provide support to Spartanburg have multiple taxpayers that have entered into agreements under the *Fee in Lieu of Ad Valorem Tax* program. In the aggregate, these taxpayers, without the benefit of the program would pay significantly more in *ad valorem* tax. However, due to the benefit provided by the *Fee in Lieu of Ad Valorem Tax* program, the taxpayers paid less in the most recent fiscal year, as shown in the table below.

The *Special Source Revenue Credit* program is intended to encourage investment into infrastructure serving the County or infrastructure serving a commercial or manufacturing enterprise in the County. The property tax reduction is granted pursuant to Chapter 1 of Title 4 of the South Carolina Code of Laws of South Carolina 1976, as amended. All property that is located in an MCIP, *Multi-County Industrial Park*, is exempt from property taxes, but property owners must pay an amount equivalent to the property taxes that would otherwise be due. The companies that make an agreement with the county based on this option are based on infrastructure credits or credits based on investments /money spent to improve a facility. Taxpayers are eligible to receive a percentage reduction off their total property tax liability if the taxpayer is located in a multicounty park, enters into an agreement with the County and agrees to make an investment in taxable property in the County and create jobs. If the taxpayer does not meet its investment or job commitments, the taxpayer must repay a portion of the reduction.

These three counties have several taxpayers that have entered into agreements with the counties under the Special Source Revenue Credit program. In the aggregate, these taxpayers, without the benefits of the program would pay more in ad valorem tax in the most recent fiscal year. However, due to the benefit provided by the *Special Source Revenue Credit* program, the taxpayers pay significantly less as shown below.

NOTE 21 – TAX ABATEMENTS, Continued

	Fee in Lieu of Tax	Special Source Revenue Credits	Total	Total Ad Valorem Tax
Cherokee County	$ 63,719	620	64,339	87,869
Spartanburg County	5,237,738	1,697,454	6,935,192	14,893,090
Union County	N/A	N/A	N/A	N/A
Total	$ 5,301,457	1,698,074	6,999,531	14,980,959

* N/A = Not Available

NOTE 22 – SUBSEQUENT EVENTS

Management has, through September 15, 2017, considered whether events have occurred or circumstances exist subsequent to the date of the financial statements, June 30, 2017, that would have materially significant effect on the carrying amounts of assets or liabilities, including estimates, and no such items have been identified.

SPARTANBURG COMMUNITY COLLEGE
June 30, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability
South Carolina Retirement System

	FY 2017	FY 2016	FY 2015
College's proportion of the net pension liability	0.170293%	0.176492%	0.185000%
College's proportionate share of the net pension liability	$ 36,374,333	$ 33,472,535	$ 31,863,435
College's covered-employee payroll	$ 17,419,328	$ 17,558,450	$ 17,680,152
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	208.82%	190.63%	180.22%
Plan fiduciary net position as a percentage of the total pension liability	52.90%	57.00%	59.92%

Schedule of Proportionate Share of the Net Pension Liability
Police Officer's Retirement System

	FY 2017	FY 2016	FY 2015
College's proportion of the net pension liability	0.00296%	0.00324%	0.00400%
College's proportionate share of the net pension liability	$ 74,978	$ 70,637	$ 67,273
College's covered-employee payroll	$ 37,681	$ 40,147	$ 40,147
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	198.98%	175.95%	167.57%
Plan fiduciary net position as a percentage of the total pension liability	60.40%	64.60%	67.55%

SPARTANBURG COMMUNITY COLLEGE
June 30, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of College Contributions
South Carolina Retirement System

	FY 2017	FY 2016	FY 2015
Contractually required contribution	$ 1,980,554	$ 1,824,011	$ 1,804,108
Contribution in relation to the contractually required contribution	$ (1,980,554)	$ (1,824,011)	$ (1,804,108)
Contribution deficiency (excess)	$ -	$ -	$ -
College's covered-employee payroll	$ 18,182,511	$ 17,419,328	$ 17,558,450
Contributions as a portion of covered employee payroll	10.89%	10.47%	10.27%

Schedule of College Contributions
Police Officer's Retirement System

	FY 2017	FY 2016	FY 2015
Contractually required contribution	$ 3,823	$ 5,177	$ 5,384
Contribution in relation to the contractually required contribution	$ (3,823)	$ (5,177)	$ (5,384)
Contribution deficiency (excess)	$ -	$ -	$ -
College's covered-employee payroll	$ 26,845	$ 37,681	$ 40,147
Contributions as a portion of covered employee payroll	14.24%	13.74%	13.41%